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ABSTRACT

The traditional role of a college or university finance committee is to oversee an institution's financial operations, ensure that a viable long-range fiscal plan is in place, and recommend financial policies to the governing board. The finance committee may assume additional responsibilities in response to changing needs and expectations of the institution's internal and external constituencies and to facilitate discussion within the administration. The role of this committee may differ somewhat among categories of institutions, and committee members must carry out their duties in the context of the institution's unique circumstances. Among the most difficult challenges are fiscal tradeoffs between program and capital decisions in which equally important financial priorities compete for scarce resources. An effective committee must have a balance of members with solid financial backgrounds and with deep understanding of the institution's work and mission; membership continuity is an important factor. Basic responsibilities include: monitoring the institution's financial operations; overseeing annual and long-range operating budgets; ensuring that accurate and complete financial records are maintained; ensuring that timely and accurate information is presented to the board; and submitting to the full board for approval capital budgets that exceed prescribed amounts; and communicating with and educating the board. (MSE)

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BOARD BASICS

EFFECTIVE COMMITTEES

THE FINANCE COMMITTEE

BY JAMES E. MORLEY, JR.

U.S. DEPARTMENT OF EDUCATION
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ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

The Finance Committee

The traditional role of a college or university finance committee is to oversee an institution's financial operations, ensure that a viable long-range fiscal plan is in place, and recommend financial policies to the board. But the environment in which every institution—large and small, public and independent—currently operates demands that finance committees assume additional responsibilities that are broader in both scope and impact than these three traditional duties. This environment stems from new expectations various constituents are placing upon colleges and universities and is characterized by the following trends:

- Students and families increasingly demand that colleges and universities make a cultural shift from a focus on the producer (faculty) to a stronger emphasis on the customer (students and the general public).
- The measures by which we gauge institutional performance and excellence are shifting from a traditional emphasis on inputs (the number of books in the library or Ph.D.s on the faculty, for example) to a new focus on outcomes (how well students are educated, as evidenced by employment or postgraduate education, for example).
- The number of nontraditional students is growing, thus prompting change in two significant areas: First, their educational needs vary greatly from the four-year, campus-based experience colleges and universities are designed to deliver. And second, they require multiple, flexible delivery systems that often depend upon up-to-date information technology, including distance learning.
- Virtually all higher education institutions face growing fiscal constraints that create the need for more effective planning, resource-allocation, and budget-implementation strategies.

- Traditional colleges and universities are competing to enroll the same pool of students. This competition is further intensified by proprietary institutions and organizations that are expanding their market share of students and from foreign institutions whose strengthened programs are attracting their citizens away from U.S. campuses and recruiting U.S. students to their institutions.

As a result of these and other challenges, the finance committee often finds itself in a leadership role on the governing board and at the center of the institution's most critical decisions. Committee members are required to integrate their traditional responsibilities with their institution's mission and to understand the broad elements of change and its accompanying resource implications. To prepare for this leadership role, all finance committee members must have a firm grasp of their institution's mission, goals, and priorities and insist that expenditures be connected directly with them.

The role of the finance committee may differ somewhat among categories of colleges and universities, and committee members need to carry out their duties in the context of their institution's unique circumstances. For example, at research institutions, finance committee members must understand the complexity of research funding and indirect cost recovery; at comprehensive four-year institutions, committee members must understand their institution's academic focus; and at community colleges, committee members must understand the importance their college places on cost-effective delivery of credit hours. Armed with such mission-specific knowledge, finance committees can do more than prevent bad financial decisions—they can be the guiding force for strategically sound decisions.

At most institutions, the charter or bylaws specify that the finance committee approves operating budgets and capital expenditures above a certain dollar limit. However, such documents also should specify that the finance committee should provide guidance to those who handle the institution's day-to-day operations and prepare financial information in keeping with the institution's mission. The finance committee also may be responsible for reviewing staff-recommended changes in fringe benefits, health care, and retirement packages.

Committee Charge

AMONG THE MOST DIFFICULT CHALLENGES A BOARD FACES ARE THE FISCAL TRADE-OFFS BETWEEN PROGRAM AND CAPITAL DECISIONS IN WHICH EQUALLY IMPORTANT FINANCIAL PRIORITIES COMPETE FOR SCARCE RESOURCES.

The finance committee's overarching charge is to ensure the fiscal stability and long-term economic health of the institution. Unless separate committees exist for auditing, investments, and budget, these areas should fall within the realm of the finance committee. If the committee's respon-sibilities include these areas, the committee chair may wish to establish subcommittees to oversee these important functions, particularly if the committee is large.

Effective budget processes depend upon a clear framework for decision making based on the college or university's mission, vision, and values. Such a framework enables committee members to recognize when either budgeting processes or decision making become disconnected from the institution's mission, so the committee chair can work with board's leadership and the institution's chief executive to refocus either the decision-making process or even the institution's mission, if necessary. When such a framework is in place, the finance committee can better perform its role as the institution's fiscal gatekeeper.

Among the most difficult challenges a board faces are the fiscal trade-offs between program and capital decisions in which equally important financial priorities compete for scarce resources. For example, finance committees often must resolve the following questions:

- Should reserves or endowment be drawn down to carry out major upgrades to student facilities, laboratories, or classrooms?
- Should an institution borrow the funds necessary to complete major renewal projects or information-technology systems?

THE FINANCE COMMITTEE'S OVERARCHING CHARGE IS TO ENSURE THE FISCAL STABILITY AND LONG-TERM ECONOMIC HEALTH OF THE INSTITUTION.

- What is the right balance between the financial obligations of ensuring a functional and attractive campus and maintaining a high-quality faculty and staff?
- At what point, if any, does the cost of an athletic program outweigh its benefits? Should an athletic program ever take financial precedence over an academic program?

A general approach for a committee to take in assessing and deciding these and other resource, capital, and operational trade-offs is to call for a business plan from the administration. The business-plan approach provides a discipline and structure for documenting options and laying out the rationale for decisions. For a business plan to be successful, it must take into account all aspects of how decision making will affect academic programs and administrative functions. A business plan devised in this way should include, at minimum, these steps:

- Document the purpose, problem, and/or opportunity.
- Describe the preferred options, explain why they are preferred, and document the research.
- List the rejected options and note why they were rejected.
- Outline the major steps for implementing the plan, including a schedule. Identify the staff members who will carry it out and the various departments that will contribute.
- Identify factors that might jeopardize the plan's success, including financial, technological, organizational, and political risks.
- Refine the processes for keeping the finance committee and board apprised of progress and issues.

Committee Structure

An effective finance committee must have a proper balance of members. While selecting committee members with solid financial backgrounds is important, it is equally important to choose members who do not have a financial background but who possess a deep understanding and enthusiasm for the institution's work and mission. Such individuals will bring fresh viewpoints to financial deliberations and remind other committee members that making and holding onto money is not the institution's primary objective.

Ideally, a trustee who is expert in financial matters and is committed to the institution's mission should chair the finance committee. The committee chair also should be a member of the executive committee.

An additional characteristic of an effective finance committee is its continuity—that is, some members should serve for consecutive terms. However, care should be taken to prevent the committee from becoming stagnant because of a lack of fresh ideas and perspectives. Many boards strive to keep a core of experienced, financially oriented members on the committee for several years, while periodically recruiting new committee members whose experiences and interests are largely outside the financial realm. Other boards choose to change the composition of their committees regularly regardless of members' backgrounds. Irrespective of the committee structure an institution selects as most effective for its unique circumstances, the composition of the finance committee should be reviewed annually. A periodic inflow of new trustees ensures fresh perspectives and promotes healthy questioning of the committee charge and processes.

Typically, finance committees are slightly larger than other board committees. To serve a governing board of an independent institution, a finance committee usually has seven to ten members. The boards of public institutions, on the other hand, often are much smaller, and therefore the committees are much smaller.

Committee Responsibilities

The finance committee's basic responsibilities follow:

1. Monitor the institution's financial operations. The finance committee is responsible for monitoring the institution's expenditures and ensuring that they comply with financial expectations. The finance committee also reviews information prepared and presented by the business office to make sure it is accurate, reported in a consistent manner, and in keeping with the institution's vision and mission. If cash flow deviates from the institution's plans or needs, the finance committee must decide upon and take corrective action.

Additionally, finance committee members must understand all of the sources of institutional revenue (the mix of which is unique to each institution and might include funds from tuition, fees, grants, donations, and endowments, among others) and identify and evaluate trends in revenue growth or stagnation and changes in the mix of sources.

2. Oversee annual and long-range operating budgets. The finance committee is responsible for guiding the institution's long-range fiscal plan and annual budget process. At most institutions, budget cycles are well established, and the administration is responsible for developing a detailed annual budget. The finance committee must evaluate the assumptions on which budgets rest, including tuition rates, salary and wage increases, and revenue sources. Further, the committee must scrutinize the validity of other assumptions, including the number of incoming students, class size, retention rates, and costs of new programs.

Committee members also should evaluate how resource allocations support the institution's vision and mission. At regular meetings during the fiscal year, the finance committee should monitor the budget against actual performance to make sure it is realistic, being met, and reflects the institution's goals. The finance committee should examine the long-term financial consequences of the current budget and call for a parallel long-range plan. Among other long-term objectives that should guide the committee's work are asset preservation, financial and facilities growth, and human-resource development.

3. Ensure that accurate and complete financial records are maintained. Another important responsibility of the finance committee is to ensure that the institution's accounting system is capable of sufficiently gathering, recording, and updating meaningful data about the institution's performance. The system should follow generally accepted accounting principles—the Financial Accounting Standards Board's (FASB) for independent institutions and the Governmental Accounting Standards Board's (GASB) for public institutions. The committee also should verify that the institution is in compliance with all federal, state, and other applicable reporting requirements.

ARMED WITH MISSION-SPECIFIC KNOWLEDGE, FINANCE COMMITTEES CAN DO MORE THAN PREVENT BAD FINANCIAL DECISIONS—THEY CAN BE THE GUIDING FORCE FOR STRATEGICALLY SOUND DECISIONS.

4. Ensure that timely and accurate information is presented to the board. One of the primary responsibilities of the finance committee is to relieve the board of the time-consuming and complex task of examining the institution's financial details. The committee should present to the board all basic financial issues in understandable, jargon-free language. Such presentations also should explain clearly the pros and cons and potential ramifications of financial decisions and include the committee's recommendations. All financial statements and reports presented to the board should be concise and timely.

5. Submit to the full board for its approval capital budgets that exceed prescribed amounts. The finance committee should review requests from the president or senior administrators to exceed the budget by a predetermined amount and then submit those requests to the full board for final approval. Additionally, the committee must ensure that such requests support the institution's mission. Further, the governing board and chief executive should set and agree on guidelines that permit the administration to operate without undue board supervision, while allowing the board to carry out its fiscal-oversight responsibility.

ALL FINANCE COMMITTEE MEMBERS MUST HAVE A FIRM GRASP OF THEIR INSTITUTION'S MISSION, GOALS, AND PRIORITIES AND INSIST THAT EXPENDITURES BE CONNECTED DIRECTLY WITH THEM.

6. Communicate with and educate the board. One of the finance committee's central responsibilities is to keep the board fully informed of the institution's financial condition. Most important, the finance committee must discuss all aspects of the budget with the board, including its underlying assumptions and how it reflects and supports the institution's vision and mission. The committee should make sure that other board members understand the implications of all financial statements, while also guiding board members toward discussions of policy implications, rather than financial details. Additionally, members of the finance committee should become knowledgeable about general higher education finance practices and present periodic reports to the full board when appropriate, such as during annual retreats, the first meeting of a new academic year, or new-trustee orientation sessions.

CONCLUSION

American higher education is in the midst of a period in which college and university leaders are obliged to conduct vigorous and ongoing analyses of their institutional missions and financial underpinnings. For some institutions, this will mean change or upheaval; for others, such intensive monitoring and examination will mean a steady rudder. Regardless, the finance committee of a board of trustees will continue to carry out important traditional responsibilities in behalf of its institution.

A finance committee can best serve its institution by integrating its basic responsibilities with the institution's mission, responding to the changing needs and expectations of the institution's internal and external constituencies, and facilitating discussions with other board committees, the president, and senior-level administrators.

Resources

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BOARD BASICS

This publication is part of an AGB series devoted to strengthening the role of key standing committees of governing boards. Several assumptions underpin the series:

- The work of boards should be accomplished in committee. An effective committee system will enhance the productivity of full board meetings.
- The committee structure of any board should mirror the full range of its responsibilities as a legal, corporate entity. That is, the committee organization should cover the oversight roles expected of trustees.
- Although there is no optimum committee system, certain principles and procedures should prevail: The board's bylaws or other operating policy should include a clear, comprehensive statement of responsibility for each standing committee. Each committee should be staffed by an appropriate administrative officer; a trustee or regent should serve as chair. No trustee should serve on more than two active committees, preferably one—excluding the executive committee.
- Before scheduled meetings, each committee member should receive a concise, well-conceived meeting agenda and relevant background information prepared by the committee chair and staff. Committees are responsible for recommending decisions and actions to the full board.
- As committee members seek additional information to fulfill their responsibilities, it is important to strike a balance between "too much" and "too little." Committee members must guard against requesting overly detailed information to avoid the appearance of becoming embroiled in administration or overburdening it. Before members make information requests, perhaps they would be well-served by asking if all such requests contribute to the committee's and the board's responsibilities for reviewing, setting, or approving institutional policies.

The *Effective Committees* set of booklets comprises publications on the following committees: investment, buildings and grounds, academic affairs, student affairs, finance, development, trustees, audit, and executive. It is part of the AGB **Board Basics Series**. AGB and the authors welcome comments and suggestions to improve this publication and others in the series.

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